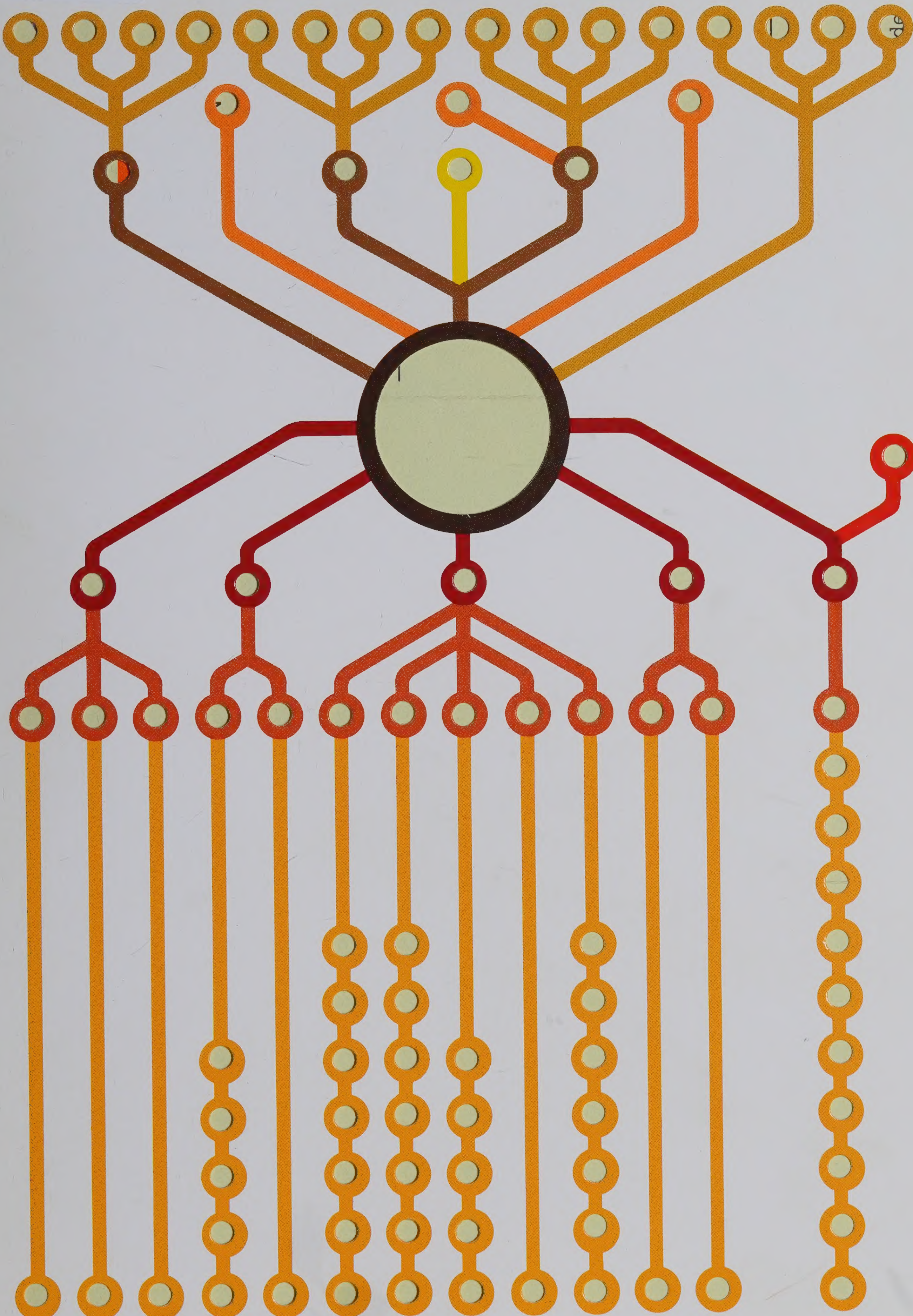
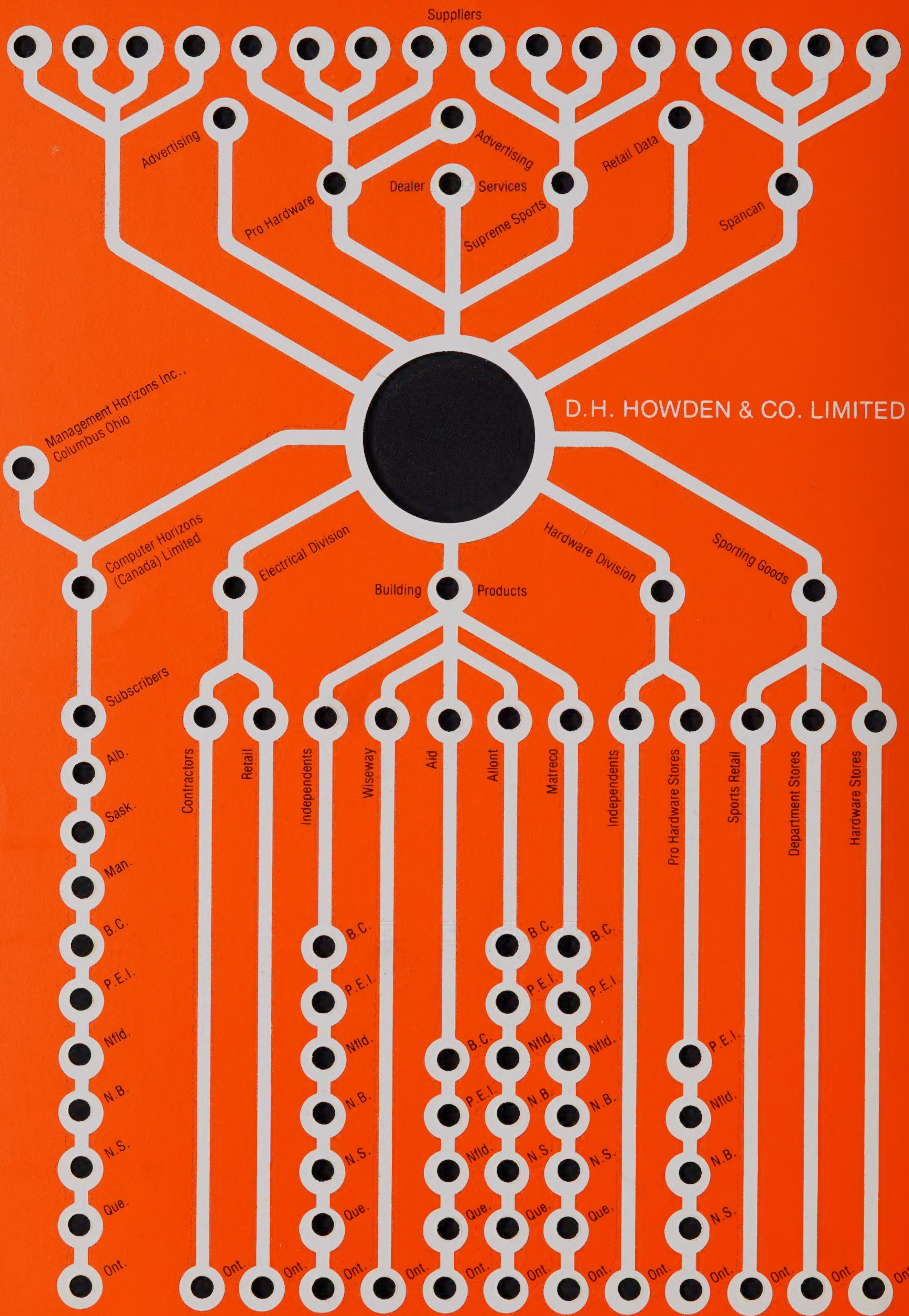
D. H. Howden & Co. Limited 1975 report to shareholders



D.H. Howden & Co. Limited; Vertical Marketing System



HOWDEN

interim report to the shareholders

For the Six Months Ended
June 30, 1975

D. H. HOWDEN & CO. LIMITED

To Our Shareholders:

Consolidated sales for the first six months of 1975 were $24.5 million, compared to $21.4 million for the same period of 1974, an increase of 15%.

We report consolidated net income after taxes for the period of $507,952 or 90¢ per share (550,000 shares) as compared with $477,350 or 92¢ per share (500,000 shares) in 1974.

Highlights of the Second Quarter include the successful installation of the Management Horizons Data Processing System at our Electrical Division, further improvements to our facilities and systems at our Southdale Road Hardware Distribution Center, the modernization and addition of over 30 new stores to Howden programs. We have also made progress in streamlining inventories, improving the turnover of receivables and achieving greater employee productivity particularly within the Distribution function.

Depressed conditions within the house building market have adversely affected growth in our Electrical Supply operation and reduced its profit contribution in the overall results.

Certain costs incurred in 1974 associated with warehousing rearrangement will not be repeated. In addition, there will be heavy concentration on marketing innovations, on improving customer service, on cost control and on asset turnover. Management looks for good results in the last half of the year.

July 28, 1975

D. H. M. Stewart
President

D. H. HOWDEN & CO. LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

	For the Six Months Ended June 30		For the Twelve Months Ended June 30	
	1975	1974	1975	1974
Gross Sales	$24,584,154	$21,429,871	$45,920,300	$38,625,369
Estimated Net Income before Taxes	1,003,952	945,850	1,702,597	1,658,156
Estimated Provision for Income Taxes	496,000	468,500	890,000	849,100
Net Income after Taxes	$ 507,952	$ 477,350	$ 812,597	$ 809,056
Earnings per Common Share after Provision for Preference Dividends	90 cents	92 cents	$ 1.42	$ 1.56

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For the Six Months Ended June 30	
	1975	1974
Source of Funds		
Income before extraordinary item	$ 507,952	$ 477,350
Non Cash Charges - Depreciation and amortization	37,282	46,320
- Deferred income taxes	(1,000)	(2,500)
- Share of net (income) loss of Computer Horizons (Canada) Limited	1,370	(4,050)
	545,604	517,120
Proceeds from sale of land		13,961
Reduction of mortgage and debenture receivable and other	11,100	161,584
Second preference shares issued	35,500	48,500
Proceeds from issuance of common shares		330,500
Reduction in advance to Computer Horizons (Canada) Limited	57,941	
	$ 650,145	$ 1,071,665
Application of Funds		
Purchase of property, plant and equipment	85,329	128,504
Advances to Computer Horizons (Canada) Limited		4,635
Decrease in long-term debt	61,897	10,883
Investment in unconsolidated subsidiaries	300	2,940
Reduction of first preference shares		4,150
Redemption of second preference shares	10,500	16,000
Payment of dividends	80,816	62,700
	$ 238,842	$ 229,812
Increase in Working Capital	$ 411,303	$ 841,853

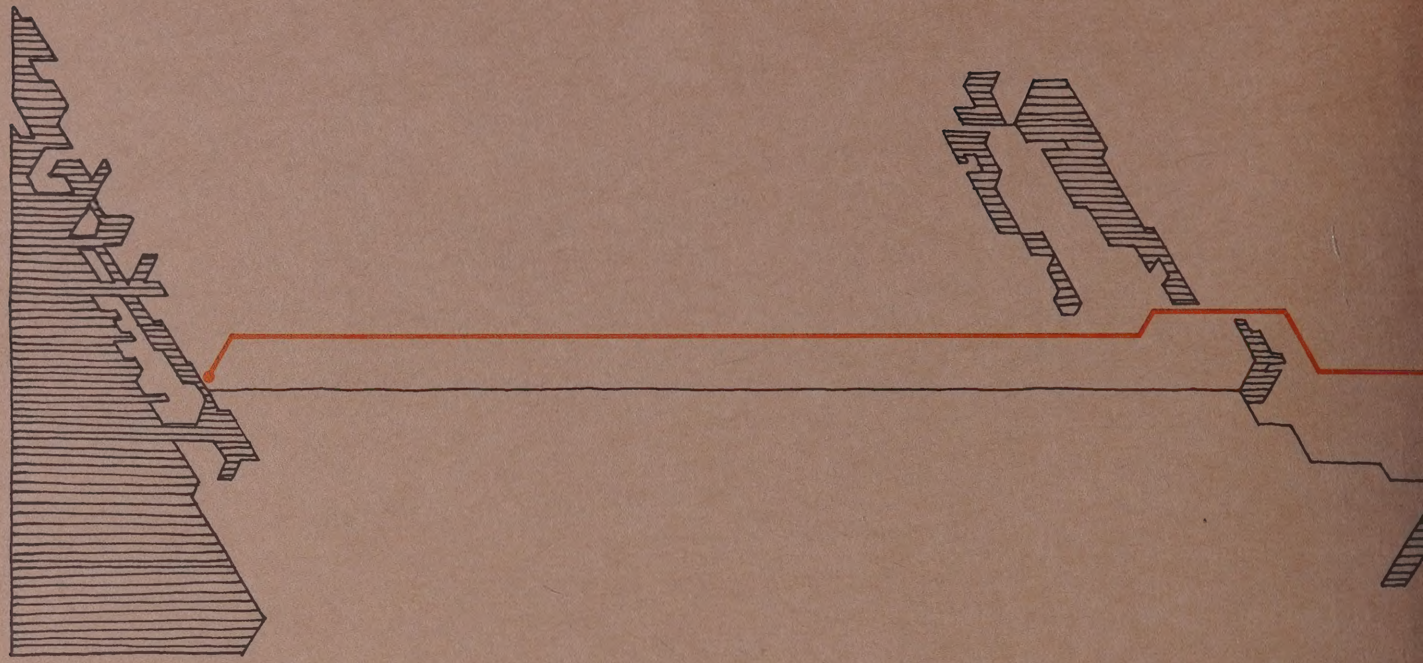
The above statements are taken from the Company's unaudited interim financial statements as at June 30, 1975 and are subject to adjustment on audit at December 31, 1975.

HOWDEN

We report another record year of sales and earnings in 1975.

Sales rose 19.3% to $51,000,000 which resulted in net earnings of $919,000, a 17.5% increase over 1974. Net profit return on Shareholders' Equity was 19% slightly below 1974's 20.5%

D.H. Howden & Co. Limited 1975 report to shareholders



Howden Vertical Marketing System

The single most important marketing development of the 1960's was the development of Vertical Marketing Systems. Howden is an example of such development and the cover of our Annual Report graphically displays the Howden Vertical Marketing System. Prior to 1960 the main distributors bought merchandise in quantity then sold it in smaller quantities to many outlets. Distributors largely competed on the basis of price. Distribution costs were high and as a result profit low. Needed services were duplicated at the manufacturing, distribution and retail levels, further adding to costs. While the same basic distribution function exists today, in the 1960's the now successful distributor began to do things differently. First he had to lower distribution costs or perish. To achieve the desired results, the distributor joined the manufacturer and retailer in a union of mutual support.

Along with the supply of merchandise, the distributor began to provide the retailer with total marketing plans or systems designed to service better the growing diverse needs of the consumer. At the same time he began to eliminate wasteful practices to achieve lower distribution costs and retail prices. Dealers who wished to join the plan became franchised dealers, agreeing to buy their merchandise requirements from the distributor. The distributor became the ''Channel Captain'', organizing the flow of merchandise from manufacturer to consumer, specifying which element of the chain could provide needed services at least cost. The Vertical Marketing System thus came into being.

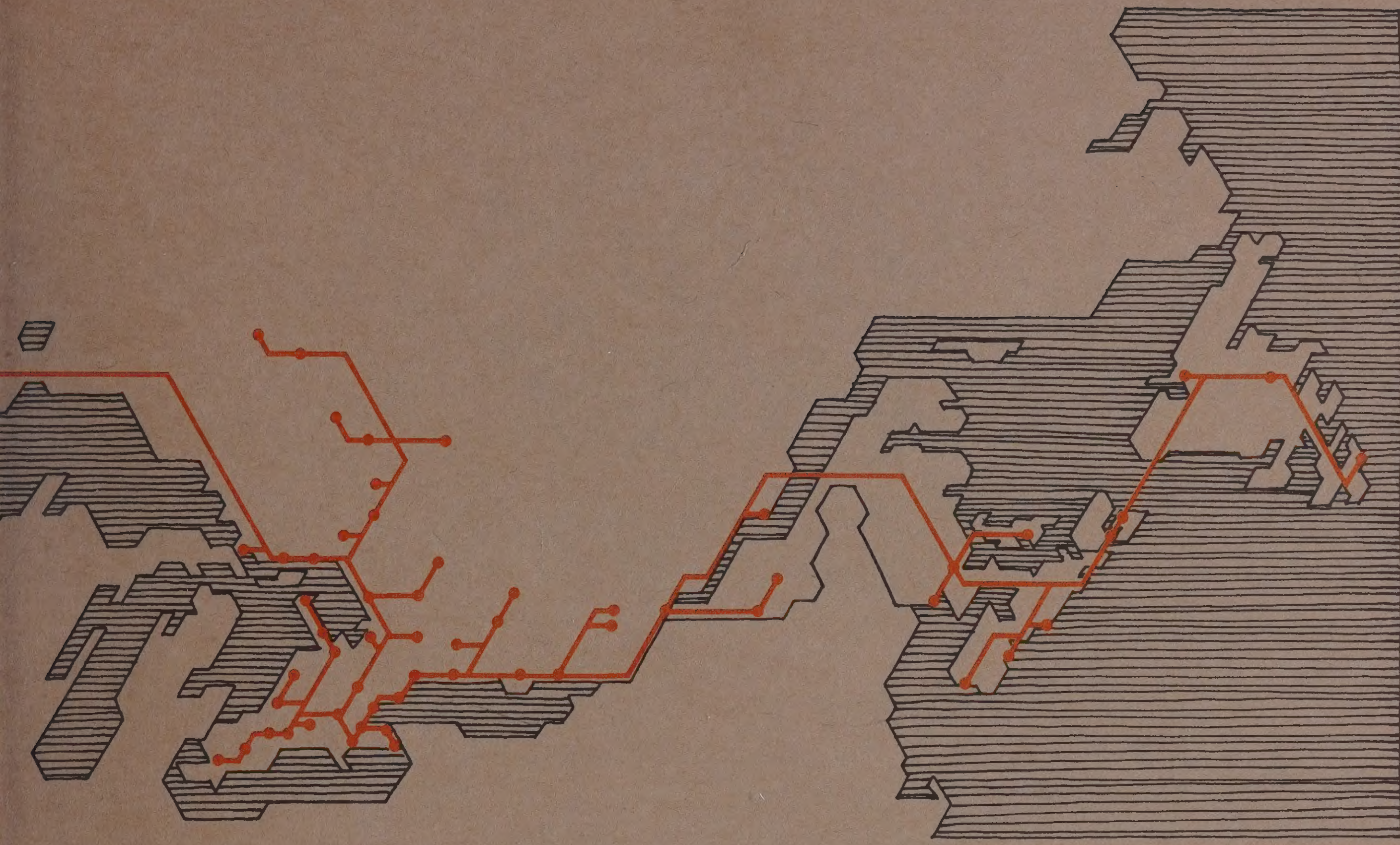
To date the competition for the consumer dollar is not so much between individual retail stores as between competitive Vertical Systems. The consumer chooses to buy from the Vertical System whose offer best serves his needs. Clear, forceful store identification and superior advertising is of paramount importance to the system.

The cover illustration shows the Howden supplier/manufacturers at the top, some selling through Pro, Supreme or Span, or directly to Howden. This segment also shows the various service suppliers, such as advertising, dealer display services and data systems used by Howden to support its sales function. In the lower section are shown the various sales or marketing functions of the Company, such as Howden's Pro Vertical Systems and Howden as a supplier of merchandise to other Vertical Systems which may be corporately or dealer owned, together with their geographical location.

The Map

Formerly all of Howden sales volume came from the Province of Ontario. But starting in 1972 the demand for Howden services arose also from Quebec and from the Atlantic Provinces, where an increasing number of dealers are joining Howden programs. Early in 1975 demand from dealers in British Columbia resulted in Howden now shipping to Vancouver for further distribution to stores.

Successful shipping to extreme areas such as B.C. and Newfoundland depends on dealers using an electronic communications device (M.S.I. units) through which they can transmit orders immediately to the London distribution centre. The economics of extensive long distance shipping are reasonable since most merchandise has its origin centrally and shipping costs must be included in the retail price. But with full van load shipments in Howden transports, as opposed to the more expensive less than carload shipments, freight cost can be reduced to our competitive advantage.



Highlights

	1975	1974
Gross Sales - increase 19%	$51,028,667	$42,766,017
Net income	918,958	781,995
Per Common share	1.62	1.44
Inventories	6,164,665	5,949,297
Working Capital	7,378,251	6,959,009
Ratio of current assets to current liabilities	2.07:1	2.26:1
Shareholders' equity per Common share	9.16	7.79
Return on net worth	19.07	20.51

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held in the Prince of Wales Room, Holiday Inn, City Centre Tower, 300 King Street, London, Ontario, on Thursday, the 27th day of May, 1976 at the hour of 11:30 a.m.

Head Office

635 Southdale Road
London, Ontario

Associated Company

COMPUTER HORIZONS (CANADA) LIMITED
President - S.R. Millar

Auditors

TOUCHE ROSS & CO.

Listing of Common Stock

TORONTO STOCK EXCHANGE

General Counsel

HARRISON, ELWOOD,
BARRISTERS AND SOLICITORS

Transfer Agents and Registrars

CANADA TRUST CO.
(Common and Second Preference Shares) Toronto, Montreal, London, Winnipeg, Calgary, Vancouver

ROYAL TRUST CO. — TORONTO
(First Preference Shares)

To our shareholders:

We report another record year of sales and earnings in 1975. Sales rose 19.3% to $51,000,000 which resulted in net earnings of $919,000, a 17.5% increase over 1974. Net profit return on Shareholders' Equity was 19%, slightly below 1974's 20.5%

Our Retail Hardware Dealer and Building Supply Divisions exceeded their objectives during the year in sales and profits. The Electric Division was less successful, being hampered by both sluggish markets in the construction industry, and temporary problems in reorganization of its marketing strategies and administration. As a result only a small profit was earned by this Division, well below projections.

During 1975 the final expansion of our Southdale Road operation was completed, providing a total of 240,000 square feet of distribution space. With rearrangement of inventories, productivity levels in this major distribution facility are now approaching projected goals. As to future expansion, available land for further building at Southdale Road is now exhausted. Should we require additional space, the present building could be converted totally into an order-filling facility. The storage function could then be moved to a nearby ''pallet in, pallet out'' warehouse, using the computer to call for movement of new merchandise into the order-filling facility on a daily basis. A distribution base for future growth is now established.

One cannot overestimate the growing importance of systems in controlling the flow of merchandise from the manufacturer through the distribution process to the consumer. We have spent and will spend much time and effort in this direction to reduce the cost of high quality distribution service. Such efforts include the development of new, inexpensive ordering systems; in-store merchandise control systems based on model stock concepts; the planning of distribution activities so that incoming and outgoing shipments can be scheduled more economically, on full truck load bases; the expansion of dealer financial control systems; further development of low cost consumer advertising programs for dealer use. We live in an era of systems revolution. In our case, progressive systems provide the basis for growth within a profitable environment.

During the year we spent much time on updating in-house computer systems to meet the merchandising needs of retailers situated over a broader area of Canada. By July 1976, we expect to have available many significant new features addressed to this purpose, and the improvement of distribution services. Outlets at a distance from our London distribution centre, such as in the Maritimes, Atlantic and Western Regions, will benefit in particular.

During 1975 our Electrical Division computer needs were processed on the Columbus system. In 1976 Howden expects to move its general accounting, inventory management and retail data systems to the same Management Horizons Systems. Howden will continue to produce dealer invoicing and distribution requirements on an in-house basis. This will expand our on-site computer capacity and facilitate corporate growth.

In spite of some pessimistic economic forecasts for 1976, our budgets call for continuing growth, not only from existing customers, but from new stores and new accounts as they join our systems. The demand for ''do-it-yourself'' merchandise, the backbone of our business, continues to grow as the consumer fights the increasing costs of home improvements by doing the needed work himself. We look to 1976 with confidence.

Computer Horizons (Canada) Limited, our joint venture with Management Horizons Data Systems Inc. of Columbus, Ohio, again recorded profits in 1975, and its organization and systems grew significantly in strength.

Inflation, the Nation's Number One problem, continues to impose growing difficulties on Canadian business. Inflation does cause a growing need for new capital to finance not only real unit growth, but also those sales increases which are totally represented by inflated dollars. Inflation automatically absorbs much of a company's earnings, merely to finance inflation. Inflation therefore demands from a business higher profit return on investment. Hence Howden must continue to concentrate on improving productivity, on achieving a superior turnover of assets, and on retaining within the business a higher percentage of earnings than would normally be required.

We sincerely hope that the new Federal program of Wage and Price Controls will work; but it must be joined by reduced Government deficit spending if this Number One problem is to be controlled. When inflation - in fact an additional Federal tax - is added to existing income tax rates, business is compelled to accept an overwhelming real levy which restricts both economic growth and full national employment.

It is with deep regret we report the passing of Mr. R.W. Robertson, a valued member of your Board of Directors since 1954. Mr. Robertson's wisdom and counsel over both difficult and prosperous years have been of the highest order, and his presence on the Board will be sorely missed.

We are gratified, however, to advise that Mr. John B. Cronyn, on invitation of the Board, agreed to complete Mr. Robertson's unexpired term of office. Mr. Cronyn's wide experience in both corporate and community affairs is well recognized and appreciated.

In reporting the good results and progress of 1975, on behalf of the Board of Directors, I express appreciation and thanks to our Staff for moving the Company ahead and for their continuing dedication. I am particularly pleased to advise that our Employee Profit Sharing Program, commenced in 1974, increased in size from 5¢ per share (after tax) to 7¢. Distribution of this fund rewards our Staff for their above average contribution to the Company's operation and profit return.

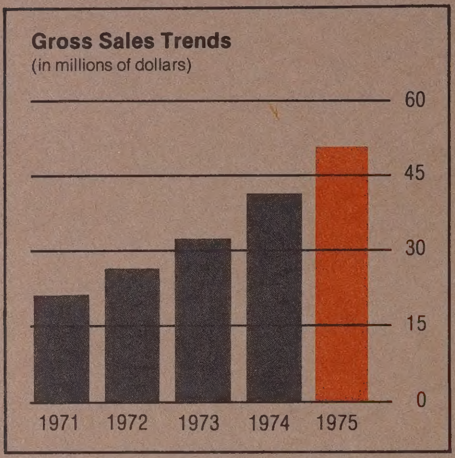
We thank too our customers for their continuing support. And we also thank our suppliers who did their best to meet our increasing demands for their products. Inability of some manufacturers to fulfill their commitments to us undoubtedly had much of its cause in the many labour strikes in Canada and the U.S.A. We can only hope that conditions in this area will improve in 1976.

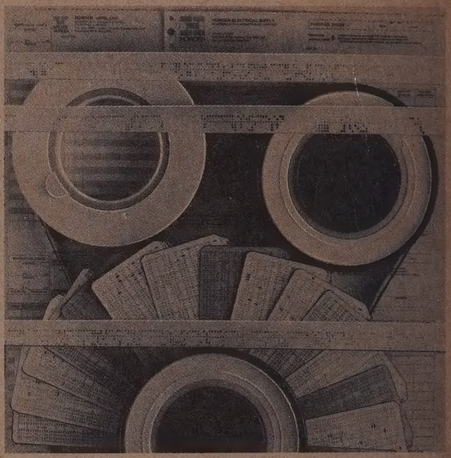
We appreciate too the support of our Shareholders, and are pleased that in 1975 we were able to increase the annual dividend to 25¢ per share to reflect the Company's improving performance.

On behalf of the Board.

David H Stewart

D.H.M. Stewart,
President.





Organization of the Company's operating divisions is essentially unchanged from 1974. Revenues are generated from three major sources:

A. The distribution of hardware, shelter, leisure and entertainment products to retailers, i.e. our franchised Pro Hardware Retail Stores, retail building supply accounts, and sporting goods stores;

B. The distribution of electrical construction materials to contractors and industrial firms;

C. The supply of advertising and merchandising services, and data processing systems to retailers and distributors.

Sales to retailers were excellent all through 1975, achieving an increase of 26% over 1974. For the past five years the average annual growth rate in this sector has been 24%.

The electrical construction market has suffered since 1974 from low levels of residential building and very competitive, institutional bidding. While our sales were fractionally up from 1974 (+2%), gross margins, already under stress, suffered further from price declines in several major lines, such as wire and conduit.

Gross income from supply of advertising, store engineering, and data processing services was encouraging in 1975, and was consistent with growth in sales to retailers.

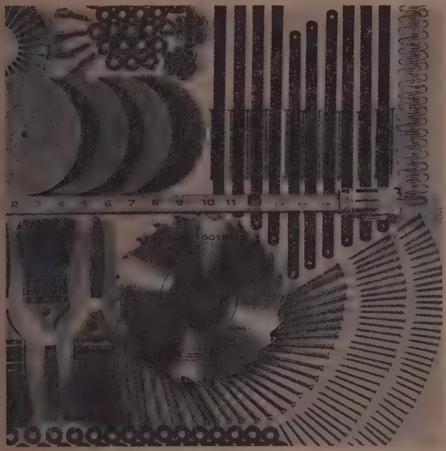
A. Distribution through retailers

The franchising principle, begun in 1964 by Pro Hardware (Canada) Limited (Procan), continues to spark growth in volume and profitability.

Procan itself is a wholesaler owned jointly by Howden and six other Canadian distributors. By concentrating the purchasing power of these seven shareholder customers on major suppliers, Procan procures for them access to merchandise of highest quality at lower cost across all of the Dominion.

In addition Procan issues retail franchising privileges to its shareholder members who in turn make them available to those of their dealers who qualify in their franchised area. Procan also creates diverse national and local advertising programs for distribution to its franchised retailers, through the shareholder member.

The responsibility for developing and servicing Pro retail outlets in Ontario falls to Howden's Hardware Dealer Division. Over 270 franchised stores now do business in Ontario. Sales to these stores increased by 17% in 1975, continuing an unbroken trend commencing in 1970.



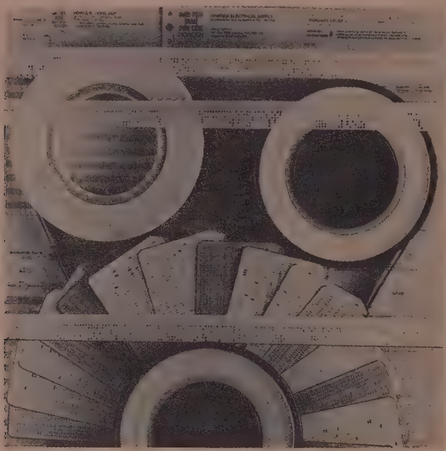
These sales advances reflect not only additional stores added to the chain, but increased buying from existing stores as they themselves grow. ''Pro'' Dealers tend mainly to be situated in towns, small cities, and the outer shopping malls of large urban developments. During 1975, analysis of the market potential for major franchised outlets closer to the core of heavy urban concentrations was undertaken. Expansion into this area will continue through 1976.

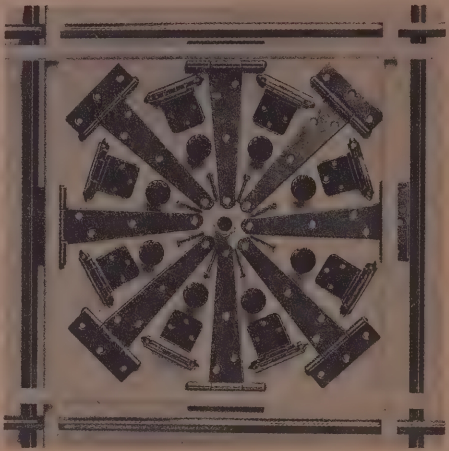
Today's design for Pro Hardware Stores includes store areas of 5,000 feet and over. This provides adequate space for our Basic Stock program of merchandise which is designed to offer broad consumer selection of well researched product lines. This stock selection is flexible in providing specialization as required for local needs and dealers' preference, as well as in meeting physical limitations.

The Pro franchisee is an independent business man, operating on his own capital, dependent on his own entrepreneurship and administrative powers to create the return required for his investment. Howden's role is to supply him not only with merchandise but the systems he needs for professional store operation. His store layout for example is researched, engineered and installed by Howden. His particular store design will not only accommodate his Basic Stock plan, but will give maximum sales return on the square footage available. His initial inventory, formulated and computerized by Howden, is based on proper ranges of products, and on order quantities designed to secure the required levels of inventory turnover.

When he reorders, as he does on a scheduled basis, his time is minimized by simple reference to automatic procedures built into the location and bin cards installed by Howden. These ensure that his inventory is under control not only for units but for dollar investment. For speed of ordering he may digitally record his order on M.S.I. equipment, with instantaneous entry into the Howden computer over his own telephone line. Or he may utilize Ansafone, a fast, 24 hour a day, automatic telephone recording instrument.

His order is recorded, filled, and shipped the next day from our main London facility. Merchandise is packed by Catalogue Department in Howden trucks, complete with detailed invoice and retail price stickers, and suggested competitive retail pricing based on variable margins. Monthly he receives a complete report of price changes, his purchase activity, and gross margin, all by department. At all times he receives regular visits from Howden field specialists who further ensure utilization and full enjoyment of the systems the franchise provides.





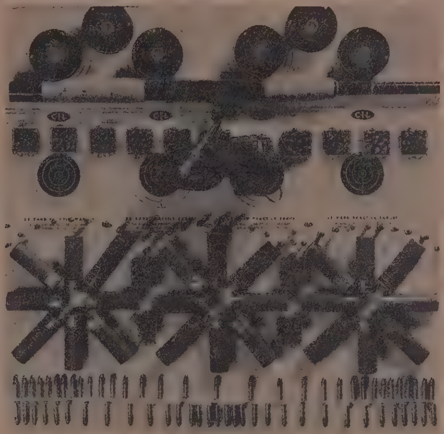
For accounting and financial matters he may draw on Howden's automated systems for processing his data, starting with a simple accounts receivable system, and proceeding if desired through all phases up to and including a financial statement.

The franchisee achieves national identity through use of the Pro symbol, signs and franchising relationships. From centralized buying comes access to all major brands, Pro branded merchandise and the lowest cost hardware drop shipments available across Canada. Procan and Howden specialists provide complete advertising systems in television, press, radio and catalogue media. Up-to-date product selection by retail oriented merchandise managers, and formal schools for product knowledge and training ensure that a dealer is well motivated and trained to meet the consumers' needs.

The flexibility of the Howden systems is well demonstrated in the progress of the Howden Building Supply Division. In the mid-sixties, in face of higher cost of tradesmen, more people began to do their own building, renovation and repair work. Therefore building materials dealers moved into the sale of hardware products relating to this type of home improvement.

Howden now supplies the hardware and shelter needs of over 600 builders' supply retail outlets in Ontario, the Maritimes and Atlantic Provinces. From its modest beginning in the 1960's the Division's growth has averaged 36% annually over the last five years, with a rate of 51% recorded in 1975.

The Basic Stock system, amongst other Howden systems, is fundamental to this market. Its format necessarily varies from purely hardware needs, but here again Howden personnel are equipped to make properly researched merchandise decisions based on access to the finest suppliers both in Canada and the United States. There is variety too, in that Howden buyers can and do purchase merchandise for specific occasions or locations, not ordinarily available in typical hardware or builders' supply stores.



The product lines for retail customers of the Building Supply Division lean towards tools, power tools, electrical, plumbing and construction materials, and all the mechanical needs that the "do-it-yourself" market implies. In addition, such recently developed items as kitchen cabinets, kitchen cabinet components, cork and decorator products, mirror tile and many other new applications find good acceptance through the retail lumber dealer.

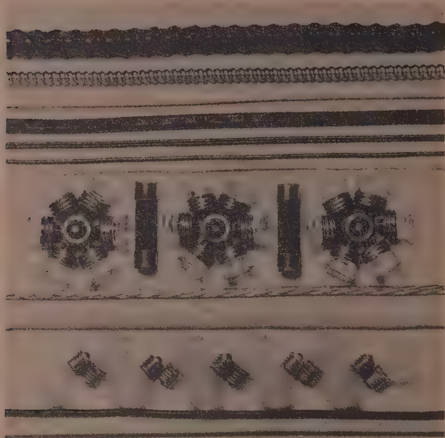
In the trend towards major home centres, total area required for the whole operation, inclusive of hardware, varies from 10,000 to 30,000 square feet, all suitably fixtured for maximum use of selling and storage space. Retail builder supply yards, on the other hand, may set aside up to 3,000 to 4,000 square feet for their hardware department.

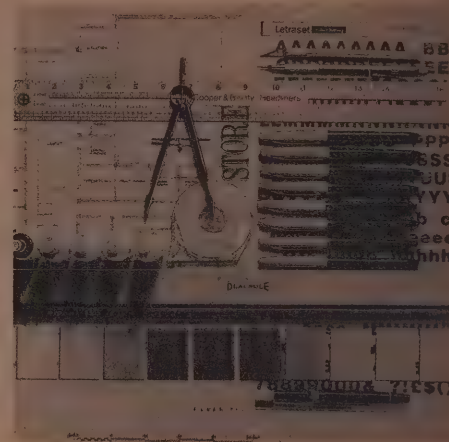
The retailer of hardware and its related products is constantly aware of the competitiveness of his market and its sensitivity to change. In his trade associations he finds channels for counsel which are invaluable. Howden endorses these attitudes and in its own turn gives personal and financial support to such associations as The Ontario Retail Hardware Association, The Ontario Retail Lumber Dealers Association, The Atlantic Building Supply Dealers Association, Lumber Dealers Association of Quebec and The Canadian Electrical Distributors Association.

The third type of retailing function which Howden systems support is the distribution of sporting goods. The Division's results for 1975 were excellent, with a sales increase of 38%.

The main retailing role is performed by the specialty sporting goods store. With selected dealers of this type of account, Howden works out a Shareholder Contract. Chain stores and department stores also are major factors in the retailing of sporting goods, and are growing customers of this Division.

Supreme Sports Limited, of which Howden is the Ontario member, provides marketing and merchandising support for five major wholesalers across Canada. Its purpose is to provide the benefits of group purchases for its members, and to develop marketing strategies on their behalf. The year 1975 was a formative year for the Company in many ways, and swifter progress is planned for 1976.





B. Distribution of electrical construction materials

The Howden Electrical Supply has a distribution area which covers all of Western Ontario. Started in 1949, the Division grew rapidly in the sixties. In the last five years it has averaged 15% growth per year. 1975 sales, however, were only marginally up from 1974 (+2%).

As experienced by many similar distributors, 1975 was not a good year for sales expansion. Residential building remained in the doldrums, and institutional construction was highly competitive. Gross margins deteriorated. The need for new market strategies is apparent, and with this in mind the Division is exploring various aspects of the retail market, such as residential lighting in its many facets.

The Division also incurred high distribution costs in 1975. To streamline operations, and to reduce future costs, warehousing activities in 1976 are being centralized at the Southdale Road facility. This will provide an improved rate of profitability for the Division through reductions in back up inventory, economies in storage costs, and efficiencies in servicing the Division's three branches at Horton Street (London), Sarnia and Kitchener.

The Division is a member of Span Canada Electric Limited. This Company is a corporate wholesaler founded in 1965 by Howden interests. It operates in a manner similar to Pro Hardware Canada Limited, with its seventeen shareholder members covering geographically the complete Canadian market. Economies in purchasing, and marketing research have been of exceptional value from this source.

C. Advertising and merchandising services, data processing systems

The Company's advertising systems are made available in complete package forms to all the Company's retail customers and associated wholesaler groups. High quality catalogues and circulars comprise the major production effort. Their impact on retail sales has been well demonstrated and is growing. Radio, T.V. and newspaper advertising also achieved higher participation. All four elements are vital to sales generation at retail levels, but are not in themselves profit centres to Howden.

The Company's Dealer Services Division was extremely active in 1975 in modernizing Pro Hardware stores, refashioning building material outlets into home centres, and establishing improved techniques in display and management of Basic Stock. This again is an essential service in retail merchandising, but not necessarily a profit centre. A full-time staff of 29 skilled and trained craftsmen is fully employed in this project continuously.

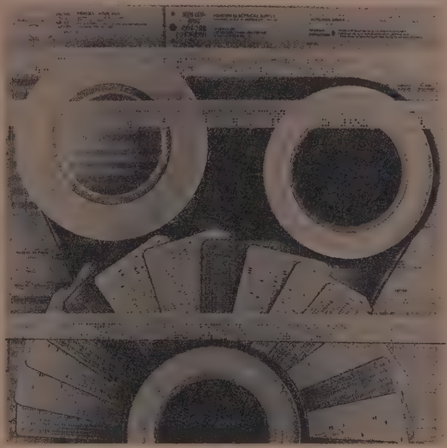
The retail data systems group achieved a substantial increase in gross income. Their services include retail data systems processed on Howden equipment, and distribution of M.S.I. equipment. Techniques in retail data processing are continuously evolving under the impetus of newly developed equipment and electronic devices. This Division is showing steady growth in a profitable environment.

The Company's joint venture in Computer Horizons (Canada) Limited again recorded a profitable year with pretax income of $16,627. Its active accounts include hardware and drug distribution companies. With a solid base for future operations, management is forecasting continued profits through 1976.

The warehousing function

The Company added substantially to its plant and facilities in 1975. A final addition to the Southdale Road complex of approximately 50,000 square feet of warehouse space was completed and became operational. The Company's facilities are now comprised of 240,000 square feet of warehouse and 20,000 square feet of office space on Southdale Road, used for hardware distribution and Head Office administrative requirements; 27,000 square feet of warehouse and office space on Horton Street in London and two small satellite warehouses of approximately 5,000 square feet each in Sarnia and Kitchener, all used for electrical distribution. The Southdale property is on a long term lease, the Electrical properties on shorter term.

Warehouse and handling equipment at Southdale Road have been improved and modernized concurrent with the new building additions in 1974 and 1975. The Towveyor system, installed in 1974, is basic to the complete warehouse operation. It is complemented by roller conveyors and mechanical order picking devices. Palletized merchandise can now be stored at heights of up to 23 feet. Warehouse productivity, stimulated through the use of these technological devices, has accommodated the substantial sales increases of 1974 and 1975.

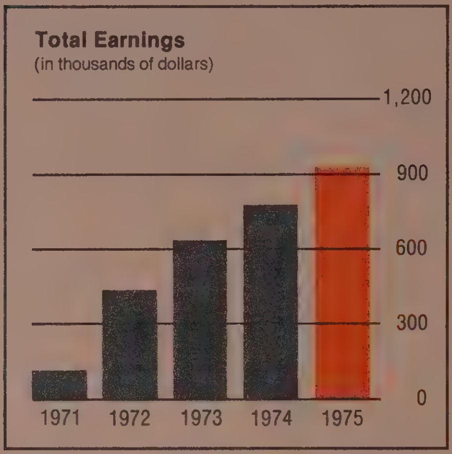


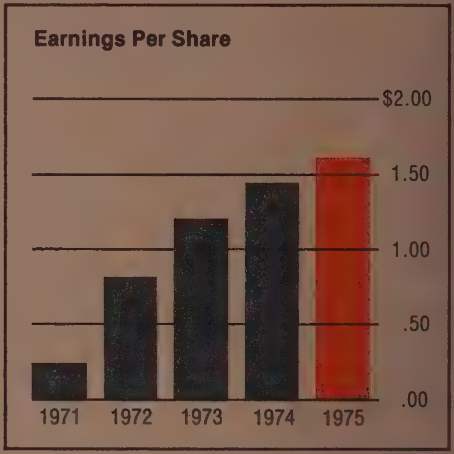
Capacity of Southdale Road warehouse space and equipment is considered adequate for the immediate future. Should further major expansion be envisaged, however, the design of the facility lends itself easily to a purely order-filling function, with daily fill-in of requirements from storage premises available within a few miles radius.

As important as order-filling and storage, is the ability to deliver the orders to the retailer's store. For this purpose the Company's fleet of leased trucks now numbers 14 trailers, 11 tractors, and 10 straight trucks.

All hardware orders and deliveries must subscribe to a regular weekly schedule, which in turn meshes with the Company's warehouse systems. Orders received at Southdale Road from any source prior to midnight are billed, processed and shipped the next day. Destinations include all of Ontario, with weekly runs to the Maritime and Atlantic Provinces. Where feasible, returning trucks pick up incoming merchandise at the manufacturer's dock or forwarding point. This is a developing program which currently utilizes 60% of back haul capacity with consequent substantial savings in freight costs.

Financial review





Record profits of $918,958 in 1975 maintained the 6 year upward trend, exceeding 1974 by 17.5%. Earnings per common share were $1.62 as compared to 1974's $1.44.

1975 earnings retained in the business amounted to $753,000, and contributed largely to the increase in working capital of $419,000, which now stands at $7,378,000. Current ratio dropped from 2.26:1 to 2.07:1, the major influence being the addition to current liabilities of the 1976 obligation for debenture repayments to the Bank of Montreal.

Short term borrowing was adequate to cover the Company's trade and other commitments satisfactorily. At year-end, short term notes outstanding to the Bank totalled $800,000, and $568,000 was contingently owing on trade paper. Similar but expanded lines of credit will be utilized for 1976 trade requirements.

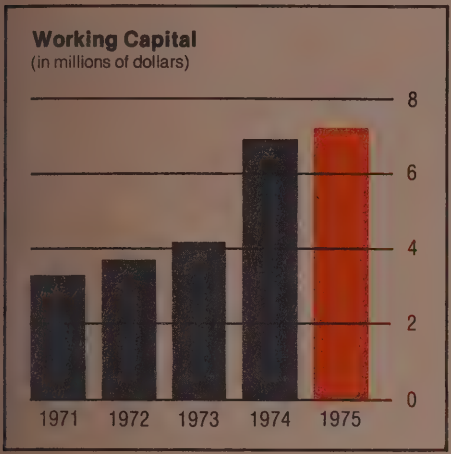
As to long term borrowing, remittances of principal of $100,000 per quarter will commence in August of 1976 to the Bank of Montreal in payment of its $2,000,000 debenture loan. This loan matures in 1981. Sinking Fund payments for the Company's 6% Debentures call for $67,889. After redemption through the Sinking Fund, the balance outstanding of such debentures will be $692,536.

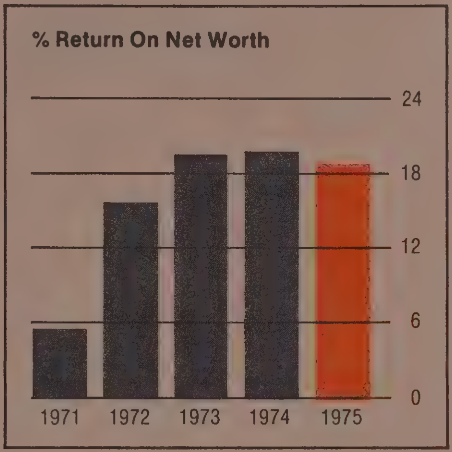
New equipment bought or leased during the year includes:

Capital Expenditures for warehouse equipment	$ 79,552
Capital Expenditures for office equipment	47,853
Value of Equipment leased for warehouse purposes	70,273
Leasehold Improvements	88,736
	$286,414

Dividends of $137,500 were paid to the Company's common shareholders and $28,031 to preferred shareholders. The annual dividend rate on the common was raised to 25¢ per share from 20¢. Payments under the Employees' Profit Sharing Plan amounted to 7¢ per share, an increase of 2¢ per share from last year. For the future, the Company's dividend policy will fall under the restraints of the Government's temporary economic controls, since its shares are listed on the Toronto Stock Exchange.

Shareholder equity now stands at $5,582,139, an increase of $762,977 from 1974. The book value of each common share at December 31st was $9.16. Common shares traded during the year were 76,100, with a high of $9.00 and a low of $4.50.





While sales and profits were at record levels, return on equity dropped from 20.5% to 19.0%.

Howden management uses this ratio of net profit to net worth as an indication of its efficiency and control, breaking it down into its three main elements;

1. Operation Management $= \frac{\text{Net Profit}}{\text{Sales}}$
2. Asset Management $= \frac{\text{Sales}}{\text{Assets}}$
3. Borrowing or Money Mangement $= \frac{\text{Assets}}{\text{Net Worth}}$

When these three profit pathways are combined they produce "net profit to net worth" or return on equity.

The concept is:

$$\begin{array}{c}\text{Operation}\\\text{Management}\end{array} \times \begin{array}{c}\text{Asset}\\\text{Management}\end{array} \times \begin{array}{c}\text{Money}\\\text{Management}\end{array} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

The arithmetic form is:

$$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Net Worth}} = \frac{\text{Net Profit}}{\text{Net Worth}}$$

Howden 1975 Results (using 12 month averages and Jan. 1 Equity) compare to 1974 as follows:

1975	1.91	x	2.93	x	3.40	=	19.0%
1974	1.97	x	2.90	x	3.59	=	20.5%

The causative factors which brought about the slight downturn in 1975 now start to take form.

Asset turnover was up (2.93 to 2.90), so that in the context of our performance formula, it acted as no deterrent to an improved return on equity. The major components of Howden's assets are accounts receivable and inventory. Trade receivables, at an all time high during the year as a result of consistently higher sales, improved their collection period by 6 days. Inventories also reached new heights, and apart from electrical stocks, were maintained at improved turnover levels. Deliveries from suppliers for 2 years have been erratic with consequent lack of balance in our warehouse stocks. At the same time it has been necessary to lift all hardware inventory levels in order to render acceptable service levels in the expanding sales environment.

Financial leverage (3.40), while down from 1974, was closer to the budgeted figure (3.17), considered to be a more desirable relationship between equity and assets.

But rate of profit to sales was inferior to last year (-.06), and less than budget.

Profits generated by the retail marketing group were very satisfactory, with pre-tax profit at target levels. Gross margins were maintained. Operating expenses were controlled within budget limits. A pronounced improvement in productivity was noted at Southdale Road, where the modernized material handling procedures were put to work by a very dedicated staff at all levels.

Distribution of electrical products however, was plagued with numerous problems. Dearth of residential building, inventory losses due to price declines, extremely competitive pricing on larger projects, the complexities encountered in moving the Division from one system of administration to another more sophisticated one, all took their toll, and the Division's pre-tax earnings dropped substantially. To assist this Division, faced with still another year of stringent markets, reorganization of physical resources and operating policies began early in 1976.

While the decline in profit of the Electrical Division is recognized as the dominant factor in our reduced return on equity, the total achievements of the Company during a difficult year were not inconsiderable. Those areas where improvement is warranted are identified within the framework of our formula, as are those instances of effective operation. To maximize individual factors disproportionately, however, is not the objective, but rather to seek optimum growth for each. At the management level, reference to monthly and quarterly formulae permits checks and redirection during the year.

Mathematical systems are largely conceptual, but the contribution of staff through their motivation and their productivity is factuality itself. During 1975 our staff increased by only 1%, but their individual productivity, measured in after tax profit dollars, jumped by 16%. Our effort in 1976 will reach its goal only through continued co-operation of such a dedicated nature.

Financial statements

D.H. Howden & Co. Limited and Subsidiary Companies
(Incorporated under the Business Corporations Act - Ontario)

Consolidated Balance Sheet as at December 31, 1975
(with comparative figures for 1974)

Assets	1975	1974
Current		
Cash	$ 190,259	$ 55,085
Accounts receivable	7,789,567	6,290,762
Inventories	6,164,665	5,949,297
Prepaid expense	109,799	60,116
Building under construction	—	123,840
	14,254,290	12,479,100
Equipment and leasehold improvements	939,045	757,237
Less accumulated depreciation and amortization	473,481	401,787
	465,564	355,450
Other		
Cash surrender value of life insurance	20,634	19,815
Equity in corporate joint ventures	178,121	226,907
Equity in unconsolidated subsidiaries	5,730	5,730
Mortgage and debentures receivable	26,375	32,951
Deferred income taxes	—	4,500
	230,860	289,903
	$14,950,714	**$13,124,453**

On behalf of the Board

Director D.H.M. STEWART

Director N. McBETH

Liabilities	1975	1974
Current		
Bank indebtedness (note 4)	$ 3,065,478	$ 1,562,800
Accounts payable	3,156,104	3,222,599
Accrued charges	315,355	391,291
Current portion of long-term debt	285,220	86,013
Income taxes payable	53,882	257,388
	6,876,039	5,520,091
Long-term debt (note 6)	2,492,536	2,785,200

Shareholders' Equity

Capital stock (note 7)		
5½% cumulative redeemable participating sinking fund first preference shares of $50 par value each		
Authorized and issued		
1975 - 3,196 shares; 1974 - 3,575 shares	159,800	178,750
3% non-cumulative redeemable second preference shares of $1 par value each		
Authorized		
1975 - 1,264,000 shares; 1974 - 1,281,000 shares		
Issued		
1975 - 385,500 shares; 1974 - 357,000 shares	385,500	357,000
Common shares		
Authorized - 1,000,000 shares without par value		
Issued		
550,000 shares	621,000	621,000
Retained earnings	4,415,839	3,662,412
	5,582,139	4,819,162
	$14,950,714	**$13,124,453**

D.H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Income for the year ended December 31, 1975

(with comparative figures for 1974)

	1975	1974
Gross sales	$51,028,667	$42,766,017
Less sales tax	3,028,315	3,128,420
	48,000,352	39,637,597
Cost of sales and operating expenses other than items noted below	45,645,878	37,507,770
Interest (note 9)	526,138	420,326
Depreciation and amortization	93,192	81,011
	46,265,208	38,009,107
Operating profit	1,735,144	1,628,490
Share of net income of Computer Horizons (Canada) Limited	8,314	16,005
Income before income taxes	1,743,458	1,644,495
Income taxes	824,500	862,500
Net income for the year	$ 918,958	$ 781,995
Earnings per common share	$1.62	$1.44

D.H. Howden & Co. Limited and Subsidiary Companies

Consolidated Statement of Retained Earnings for the year ended December 31, 1975

(with comparative figures for 1974)

	1975	1974
Retained earnings, beginning of year	$3,662,412	$3,013,910
Net income for the year	918,958	781,995
	4,581,370	3,795,905
Dividends		
First preference shares	16,466	17,753
Second preference shares	11,565	10,740
Common shares	137,500	105,000
	165,531	133,493
Retained earnings, end of year	$4,415,839	$3,662,412

Consolidated Statement of Changes in Financial Position for the year ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
Source of funds		
Funds provided from operations		
Net income for the year	$ 918,958	$ 781,995
Non-fund items		
Depreciation and amortization	93,192	81,011
Deferred income taxes	4,500	(500)
(Profit) loss on disposal of equipment and leasehold improvements	(5,696)	7,231
Share of net income of Computer Horizons (Canada) Limited	(8,314)	(16,005)
	1,002,640	853,732
Reduction of mortgage and debenture receivable	6,576	183,047
Reduction of advances to Computer Horizons (Canada) Limited	57,400	—
Disposal of equipment and leasehold improvements	18,531	9,330
Long-term bank loan	—	2,000,000
Second preference shares issued	45,500	74,000
Common shares issued	—	330,500
	1,130,647	3,450,609
Application of funds		
Equipment and leasehold improvements	216,141	243,883
Cash surrender value of insurance	819	950
Investment in corporate joint venture	300	—
Investment in unconsolidated subsidiaries	—	2,960
Advances to Computer Horizons (Canada) Limited	—	115,892
Long-term debt	292,664	90,148
Reduction of first preference shares	18,950	12,900
Redemption of second preference shares	17,000	33,500
Dividends	165,531	133,493
	711,405	633,726
Increase in working capital	**$ 419,242**	**$ 2,816,883**

Notes to Consolidated Financial Statements for the year ended December 31, 1975

1. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Howden-Howland Limited, Cowan Hardware (1968) Limited and D.H. Howden Stores (Central) Limited.

The equity of D.H. Howden & Co. Limited in unconsolidated subsidiaries consists of the company's investment in Pro Hardware (Canada) Limited and in Span-Canada Electric Limited. Although these two companies are technically subsidiaries of D.H. Howden & Co. Limited through ownership of voting control, in substance they represent corporate joint ventures on the part of a number of non-competing wholesalers who participate in an integrated merchandising programme and volume purchasing. It was considered inappropriate to consolidate the assets and liabilities of these companies since they consist primarily of amounts due from unrelated companies to these subsidiaries on their behalf. All the expenses of these companies and volume discounts derived from their operations are apportioned to participating member companies. The share of D.H. Howden & Co. Limited in these expenses and volume discounts is reflected in the accompanying financial statements.

Investments in corporate joint ventures are carried at Howden's share of equity therein and advances to such corporations. The company's share of their earnings is included in consolidated net income.

Inventories

Inventories consist of finished goods and are valued at the lower of cost and net realizable value.

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost and depreciated or amortized over their estimated useful lives. Equipment is depreciated using the declining balance method at rates of 20% and 30% and leasehold improvements are amortized using the straight-line method over the term of the lease.

2. Anti-Inflation Legislation

Because D.H. Howden & Co. Limited is listed on the Toronto Stock Exchange total annual dividends are restricted under the Anti-Inflation Legislation to a maximum of $195,499 in the twelve month period ending October 13, 1976. In the period October 14, 1975 to December 31, 1975 the company declared and paid dividends on second preference and common shares totalling $80,315. The restriction that may apply to dividend payments subsequent to October 13, 1976 has not yet been announced by the Government.

3. Long-term Leases

(a) The company and its subsidiaries rent land, buildings and warehouse equipment under long-term leases expiring at varying dates before the year 2001. Rentals payable under leases expiring more than three years from December 31, 1975 approximate $306,000.

(b) During 1975 the company completed and sold and leased back over a term of 25 years an addition to the warehouse in the amount of $750,000.

4. Bank Indebtedness

Bank indebtedness is secured by an assignment of book debts.

5. Contingent Liabilities

The company is contingently liable in the amount of $712,000 as follows:

Guarantee of trade paper	$568,000
Computer Horizons (Canada) Limited	144,000
	$712,000

6. Long-term Debt

	1975	1974
Cowan Hardware (1968) Limited		
8% first mortgage debenture repayable in monthly instalments of blended principal and interest, maturing October 1, 1976	$ 17,331	$ 38,113
D.H. Howden & Co. Limited		
Bank loan repayable in quarterly instalments of principal of $100,000 commencing on August 15, 1976, secured by a floating charge debenture maturing May 15, 1981, bearing interest at a rate 1½% over prime	2,000,000	2,000,000
6% floating charge sinking fund debentures maturing May 1, 1989	760,425	833,100
	2,777,756	2,871,213
Less portion due within one year	285,220	86,013
	$2,492,536	**$2,785,200**

Under the terms of the Trust Indenture dated May 1, 1969 relating to the 6% sinking fund debentures, the company is required to pay to the trustee, for sinking fund purposes by May 1 each year, a sum equal to 10% of the company's net income before extraordinary items and excluding that of subsidiary companies.

7. Capital Stock

First preference shares

The provisions relating to the payments of dividends confer upon the holders of first preference shares a right to participate in dividends on an equal basis with the common shareholders up to a maximum of $2 per share, after a dividend of $ .06 has been declared on each common share in any calendar year.

The shares are redeemable, at the option of the company upon thirty days notice, at a premium of $1.50 plus any unpaid cumulative dividends.

Under the sinking fund provisions attaching to the shares, 379 shares were purchased for cancellation during the year at a cost of $17,845.

Second preference shares

During the year 45,500 second preference shares were issued for cash and 17,000 shares were redeemed at par value.

8. Remuneration of Directors and Senior Officers

The aggregate direct remuneration for the year of the directors and senior officers amounted to $307,527 of which $273,950 was paid by the company and its consolidated subsidiaries and $33,577 was paid by unconsolidated subsidiaries.

9. Interest on Long-term Debt

Interest on long-term debt amounted to $271,784 in 1975 (1974 - $114,477).

The Shareholders,
D.H. Howden & Co. Limited.

We have examined the consolidated balance sheet of D.H. Howden & Co. Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants.

LONDON, Ontario,
March 5, 1976.

Five year review

	1975	1974	1973	1972	1971 (Restated)
Operating Results					
Gross Sales	$51,028,667	$42,766,017	$32,476,731	$27,794,722	$22,045,644
Income before income taxes and extraordinary item	1,743,458	1,644,495	1,296,869	875,375	399,964
Income taxes	824,500	862,500	670,000	444,000	258,800
Income before extraordinary item	918,958	781,995	626,869	431,375	141,164
Extraordinary item	—	—	10,000	134,824	—
Net Income	918,958	781,995	636,869	566,199	141,164
Retained earnings	4,415,839	3,662,412	3,013,910	2,397,394	1,852,261
Financial Position					
Accounts receivable (net)	7,789,567	6,290,762	5,182,223	4,940,433	3,695,805
Inventories	6,164,665	5,949,297	3,780,499	3,331,779	2,651,372
Total current liabilities	6,876,039	5,520,091	4,995,634	4,662,107	3,227,627
Working capital	7,378,251	6,959,009	4,142,126	3,737,735	3,241,458
Long-term debt	2,492,536	2,785,200	875,348	991,109	1,072,856
Shareholders' equity	5,582,139	4,819,162	3,812,560	3,204,894	2,655,811
Return on Net Worth *(January 1)	19.07%	20.51%	19.89%	16.22%	5.58%

*Before extraordinary gain

Per Common Share					
Earnings before extraordinary item	1.62	1.44	1.21	0.82	0.24
Net earnings	1.62	1.44	1.23	1.09	0.24
Shareholders' equity	9.16	7.79	6.61	5.38	4.29

Directors and Officers

Directors, left to right: N. McBeth, J.B. Cronyn, J.W. Adams, F.C.A., J.D. Harrison, M.B.E., Q.C., D.H.M. Stewart, and D.R. Hughes.

Not present: T.B. Copp, J.H. Unger.

Directors

JOHN W. ADAMS, F.C.A.
Executive Vice President, Treasurer and Director, Emco Limited
Director, Sifton Properties Limited

T. BRAYL COPP
President, Copp Builders' Supply Company Limited

JOHN B. CRONYN
Corporate Director
John Labatt Limited

JOHN D. HARRISON, M.B.E., Q.C.
Partner, Harrison, Elwood
Barristers and Solicitors

DONALD R. HUGHES
President, Span-Canada Electric Limited

NORMAN McBETH
Vice President-Finance, and Secretary Treasurer

DAVID H.M. STEWART
Chairman
President, Pro Hardware (Canada) Limited

JOSEPH H. UNGER
Retired; Formerly President,
Metropolitan Stores of Canada Limited

Officers

D.H.M. STEWART
President and Chairman of the Board

N. McBETH
Vice President-Finance, and Secretary Treasurer

K.G. ALLASTER, C.A.
Vice President-Controller

W.J. TARVIT
Vice President of Marketing-Hardware Division

F.P. FORAN
Vice President of Marketing-Building Supply Division

C.W.K. LEROY
Vice President of Marketing-Electrical Supply Division

R.C. McKERLIE
Vice President-Merchandising

M.C. HUMPHREY
Vice President-Distribution

M.C. TUCKER
Vice-President, Corporate Planning

HOWDEN